INCOME TAX

TIPS FOR MILITARY TAXPAYERS

OFFICE OF
THE STAFF JUDGE ADVOCATE
21ST THEATER SUPPORT COMMAND

THE 21st TSC TAX ASSISTANCE PROGRAM

MISSION STATEMENT

TO ELIMINATE THE NEED FOR MILITARY PERSONNEL, CIVILIAN EMPLOYEES, AND FAMILY MEMBERS TO PAY OTHERS TO PREPARE OR ELECTRONICALLY FILE A SIMPLE TAX RETURN.

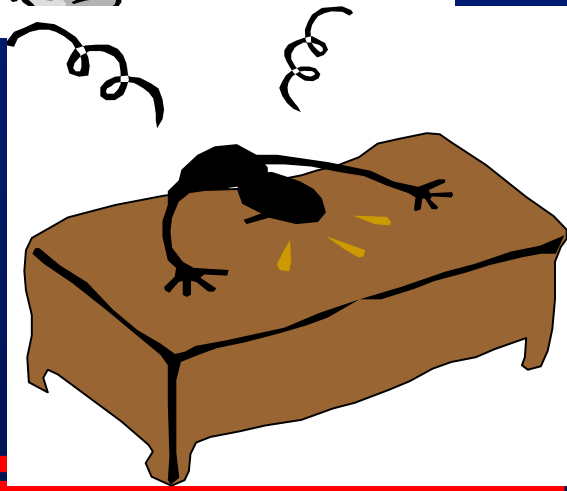
GOALS FOR CY 2006

- INCREASE TAXPAYER AWARENESS OF:
  - FREE TAX ASSISTANCE SERVICES
  - ADVANTAGES OF USING SOFTWARE
  - BENEFITS OF DIRECT DEPOSIT
  - TAX LAW CHANGES THAT HELP YOU
- MINIMIZE IMPACT OF DEPLOYMENTS ON MILITARY TAXPAYERS

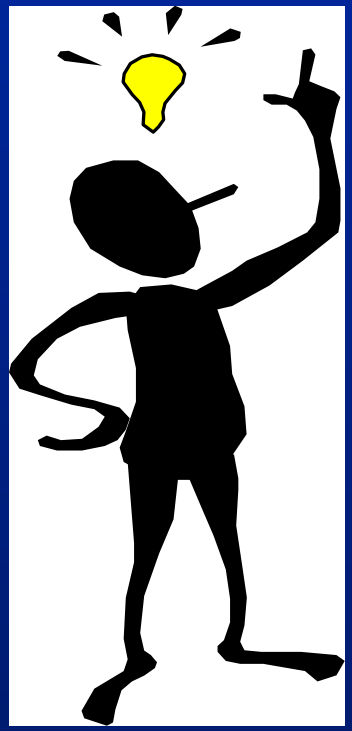
THE CHANGING FACE OF THE ARMY TAX ASSISTANCE PROGRAM

WHAT'S OLD

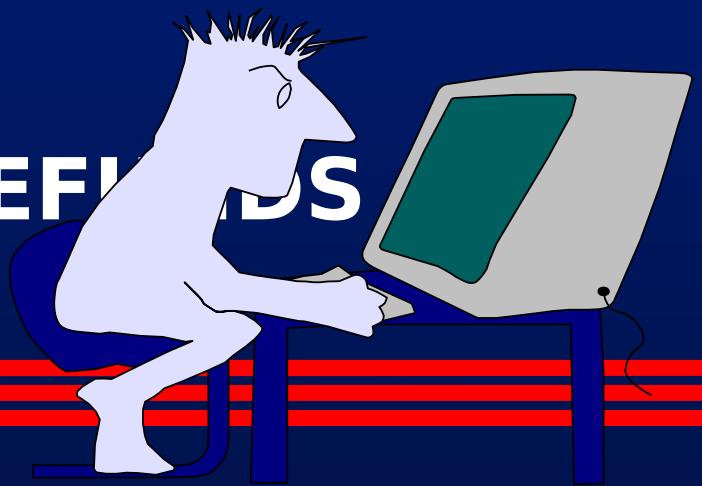
- UNIT TAX ADVISORS
  AS TAX PREPA
- PAPER RETURNS
- DONE BY HAND
- CALCULATORS
- STUBBY PENCILS
- SNAIL MAIL TO PHILLY
- REFUND CHECKS



WHAT'S NEW



- "E-FILERS" PREPARE
- DONE BY COMPUTER
- "TAXWISE" SOFTWARE
- DOWNLOADING FORMS
- TRANSMITTING RETURNS
- DIRECT DEPOSIT OF REFUNDS



CHANGES TO TAX LAW FOR TAX YEAR 2005

NEW DEFINITION OF "QUALIFYING CHILD"

- **UNIFORM DEFINITION** FOR:
  - HEAD OF HOUSEHOLD STATUS
  - DEPENDENCY EXEMPTION
  - CHILD & DEPENDENT CARE CREDIT
  - CHILD TAX CREDIT
  - EARNED INCOME CREDIT
- WILL SIMPLIFY FILING TAX RETURNS…

NUMBERS TO KNOW

- **$1.00 = .80 EUROS (AVERAGE FOR TY 2005)**
- **FOREIGN EARNED INCOME EXCLUSION -- $80,000**
- **COMBAT ZONE EXCLUSION FOR COMMISSIONED OFFICERS FOR 2005: $6,529.20/month [with IDP]**
  $6,304.20/month [without IDP]

NUMBERS TO KNOW

- **EARNED INCOME CREDIT LIMITS:**
  - **$31,030 [$33,030 MFJ] -- 1 QUALIFYING CHILD**
  - **$35,263 [$37,263 MFJ] -- 2 OR MORE CHILDREN**
  - **$11,750 [$13,750 MFJ] -- NO QUALIFYING CHILD**
- **MILEAGE ALLOWANCE:**

	1 JANUARY - 31 AUGUST 2005	1 SEPTEMBER - 31 DECEMBER 2005
BUSINESS	40.5 CENTS	48.5 CENTS
CHARITABLE	14 CENTS	14 CENTS [no change]
MEDICAL	15 CENTS	22 CENTS
MOVING	15 CENTS	22 CENTS
KATRINA	29 CENTS	34 CENTS

STANDARD DEDUCTION/ EXEMPTIONS

	TY 2005	TY 2004
• Single	$5,000	$4,850
• Married Filing Joint & Qualifying Widow(er)	$10,000	$9,700
• Married Filing Separately	$5,000	$4,850
• Head of Household	$7,300	$7,150
• *Exemptions are worth:*	$3,200	$3,100

TAX CREDITS

- CHILD & DEPENDENT CARE CREDIT
- FOREIGN TAX CREDIT
- EARNED INCOME CREDIT
- CHILD TAX CREDIT
- ADDITIONAL CHILD TAX CREDIT
- ADOPTION CREDIT
- HOPE SCHOLARSHIP CREDIT
- LIFETIME LEARNING CREDIT
- RETIREMENT SAVINGS CONTRIBUTIONS CREDIT

EARNED INCOME CREDIT

- *CHANGED IN TY 2002!*
- NO LONGER REQUIRED TO ADD NONTAXABLE INCOME TO AGI
- MEANS A LOT MORE MILITARY TAXPAYERS WILL QUALIFY
- CREDIT CAN BE AS MUCH AS $4,400!
- CIVILIANS OVERSEAS DO NOT QUALIFY FOR “EIC”

EARNED INCOME CREDIT

- *BIG CHANGE FOR 2004 & 2005!*
- **MILITARY TAXPAYERS CAN NOW ELECT TO HAVE THEIR NONTAXABLE COMBAT PAY INCLUDED IN "EARNED INCOME" FOR PURPOSES OF QUALIFYING FOR THE EIC**

CHILD TAX CREDIT

- ***BIG MONEYMAKER FOR MILITARY***
- **NEW IN TY 1998 ($400/CHILD)**
- **INCREASED TO $500 FOR 1999-2000**
- **INCREASED TO $600 FOR 2001-2002**
- **AFTER 2002, *INCREASED TO $1,000!***
- **EASY TO OVERLOOK**
- **NEED TO FILE *NEW W-4* FORMS TO PREVENT OVERWITHHOLDING**

LIFETIME LEARNING CREDIT

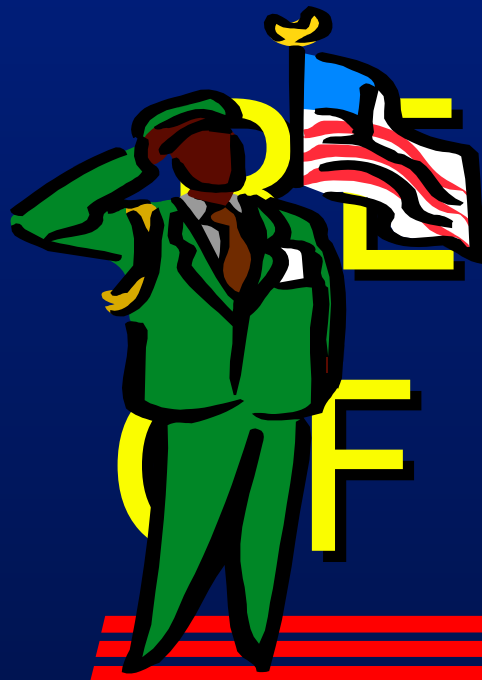
- AMOUNT OF TUITION & RELATED EXPENSES INCREASED IN 2003 FROM $5,000/YEAR TO $10,000/YEAR
- MAXIMUM AMOUNT OF THE CREDIT INCREASED IN 2003 FROM $1,000/YEAR TO $2,000/YEAR

IRA CONTRIBUTION LIMITS

- THE MAXIMUM CONTRIBUTION TO A TRADITIONAL OR ROTH IRA WENT UP FROM $3,000 IN 2004 TO $4,000 IN 20
- IF YOU ARE OVER 50, THE LIMIT W FROM

  TO $4,500

MILITARY FAMILY TAX RELIEF ACT OF 2003 (METRA)



CAPITAL GAINS ON HOME SALES

- **OWNERSHIP TEST:**
  - MUST HAVE OWNED HOME FOR 2 OF THE 5 YEARS LEADING UP TO SALE
- **USE TEST:**
  - MUST HAVE LIVED IN HOME FOR 2 OF THE 5 YEARS LEADING UP TO SALE
- ***MFTRA HELPED MILITARY TAXPAYERS MEET USE TEST…***

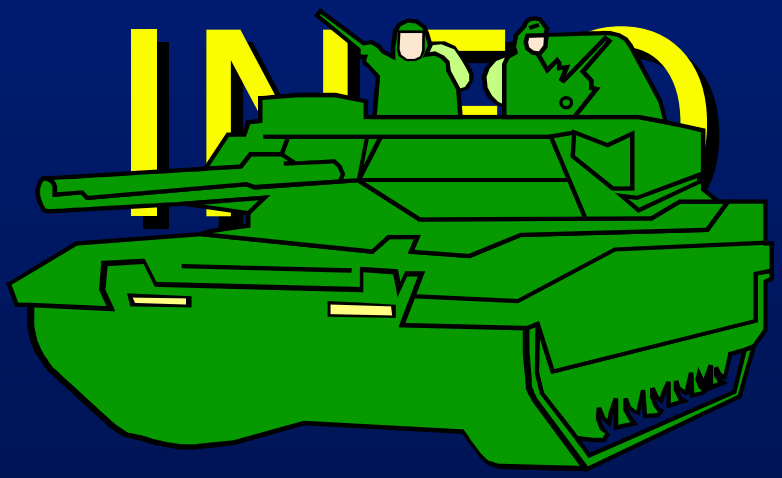
RESERVE TRAVEL BREAKS

- DRILLING RESERVISTS & NATIONAL GUARD
- TRAVEL, MEALS, & LODGING COSTS NOW DEDUCTIBLE AS ADJUSTMENT TO INCOME—*DO NOT NEED TO ITEMIZE!*
- REQUIREMENTS:
  - 100 MILES FROM HOME
  - STAY OVERNIGHT
  - ONLY 50% OF MEAL COSTS

DEATH GRATUITY

- INCREASED FROM $6,000 TO $12,000
- PAID TO SURVIVORS
- ***ALL OF IT*** IS NOW TAX FREE
- RETROACTIVE TO 9/11/2001
- NEED NOT BE COMBAT-RELATED
- ***SURVIVORS MAY NEED TO AMEND***
- INCREASED AGAIN TO $100,000!

COMBAT ZONE TAX



COMBAT ZONE BASIC VOCABULARY

- "COMBAT ZONE"
- "QUALIFIED HAZARDOUS DUTY AREA"
- "EXCLUSION"
- "EXTENSION"
- CONSULT PUB 3

COMBAT ZONES

- CREATED BY EXECUTIVE ORDER
- OPERATION ENDURING FREEDOM COMBAT ZONE:
  - AFGHANISTAN & AIR SPACE ABOVE IT
  - ALSO TROOPS IN DIRECT SUPPORT & RECEIVING HOSTILE FIRE OR IMMINENT DANGER PAY SERVING IN:
    - UZBEKISTAN, KYRGYSTAN, PAKISTAN, TAJIKISTAN, & JORDAN
    - YEMEN, THE PHILIPPINES, & DJIBOUTI.

COMBAT ZONES

- **PERSIAN GULF AREA**
  - IRAQ, KUWAIT, OMAN, BAHRAIN, QATAR, U.A.E., SAUDI ARABIA, & ADJACENT WATERS
  - TURKEY, IF IN DIRECT SUPPORT OF “OIF”
- **KOSOVO AREA**
  - KOSOVO, SERBIA, & ALBANIA (PLUS ADRIATIC & NORTH IONIAN SEA)
- **VIETNAM & KOREA HAVE ENDED**

QUALIFIED HAZARDOUS DUTY AREAS

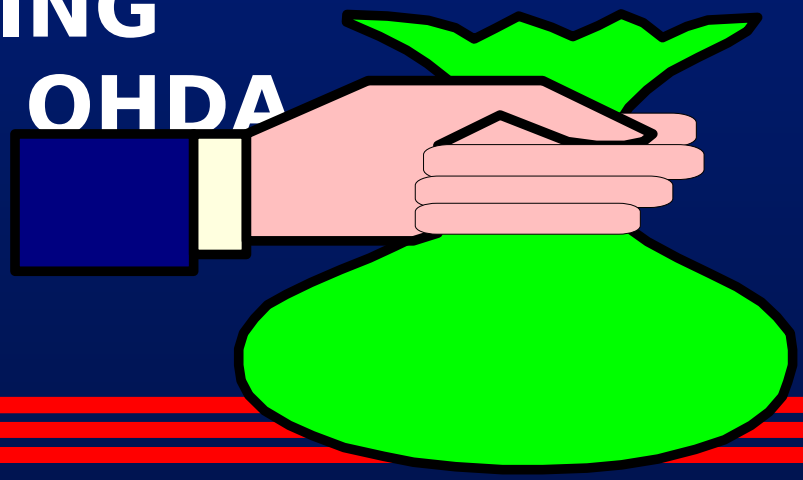
- CREATED BY CONGRESS
- FORMER YUGOSLAVIA
  - BOSNIA, CROATIA, MACEDONIA
- ALLIED FORCE
  - KOSOVO, SERBIA, ALBANIA (PLUS ADRIATIC & NORTH IONIAN SEA)
- *INCLUDES THOSE IN DIRECT SUPPORT OF OPERATIONS IN QHDA*

EXCLUSION

- MEANS YOU DON'T HAVE TO PAY TAX ON MILITARY PAY YOU RECEIVE IN CZ OR QHDA
- *APPLIES TO MILITARY ONLY*
- ENLISTED & WARRANT OFFICERS:
  - ALL MILPAY EXCLUDED
- COMMISSIONED OFFICERS:
  - ANY MILPAY OVER EXCLUDABLE AMOUNT ($6,529.20/MO.) TAXABLE

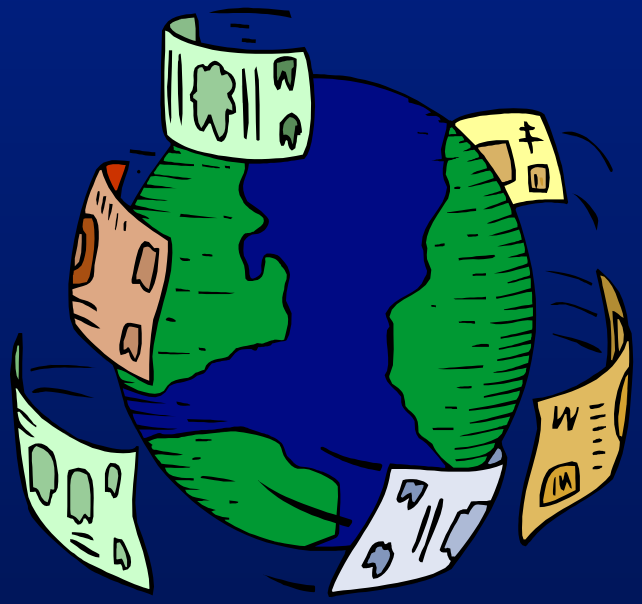
EXCLUSION

- FOR “EACH MONTH OR PART OF A MONTH” SERVED IN CZ OR QHDA
- APPLIES TO **BONUSES** & **STUDENT LOAN REIMBURSEMENTS** WHICH THE SOLDIER BECAME ENTITLED TO WHILE SERVING IN CZ OR QHDA



EXCLUSION

- WHAT ABOUT PAYMENTS FOR LEAVE ACCRUED IN COMBAT ZONE?
- WHAT ABOUT TSP CONTRIBUTIONS?
- WHAT ABOUT IRA CONTRIBUTIONS?

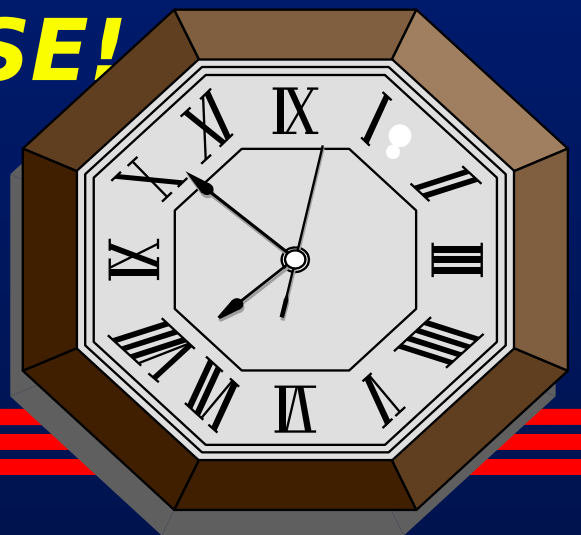


EXTENSION

- MEANS YOU HAVE **MORE TIME** TO FILE TAX RETURNS AND TAKE CARE OF OTHER TAX MATTERS
- APPLIES TO MILITARY **AND SOME CIVILIANS** IN CZ OR QHDA
- ALSO APPLIES TO THOSE IN DIRECT SUPPORT OF OPERATIONS IN CZ OR QHDA

EXTENSION

- **180 DAYS FROM DATE SOLDIER REDEPLOYS, PLUS # OF DAYS SOLDIER HAD LEFT TO FILE WHEN (S)HE DEPLOYED**
- ***IF SPONSOR HAS EXTENSION, SO DOES THE SPOUSE!***



TAX SERVICES FOR DEPLOYED PERSONNEL

- **JUST BECAUSE YOU HAVE AN EXTENSION DOES NOT MEAN YOU HAVE TO WAIT TO FILE, ESP. IF YOU'RE GETTING A REFUND**
- ***FREE ELECTRONIC FILING IS AVAILABLE IN MOST PLACES WHERE TROOPS ARE DEPLOYED!***

TAX SERVICES FOR SPOUSES OF DEPLOYED PERSONNEL

- IF SPONSOR GAVE SPOUSE A POWER OF ATTORNEY, SPOUSE CAN FILE A JOINT RETURN IN ANY TAX CENTER
- SPOUSE CAN ALSO E-FILE AND HAVE REFUND DIRECTLY DEPOSITED INTO A JOINT BANK ACCOU
- *"WHY DELAY? FILE TODA*

FOREIGN TAX ISSUES

FOREIGN EARNED INCOME

- A LOT OF TAXPAYERS IN THE MILITARY COMMUNITY HAVE IT:
  - RED CROSS, USO, BANK/CREDIT UNION, UNIV. OF MD. EMPLOYEES
  - INDEPENDENT CONTRACTORS
- FILE FORM 2555 TO EXCLUDE IT
  - ***IF PAID BY THE U.S. GOVERNMENT OR THE DEFENSE COSTS OFFICE, YOU CANNOT TAKE THE EXCLUSION!***

FOREIGN SPOUSES

- IF YOU MARRIED A FOREIGNER IN 2005 YOU MUST:
  - DECIDE WHICH FILING STATUS TO USE
  - FILE A “DECLARATION” IF FILING JOINTLY FOR THE FIRST TIME
  - FILL OUT A W-7 FORM TO REQUEST AN “ITIN” FOR YOUR SPOUSE
- CONSULT PUB 54

HOW TO OBTAIN AN ITIN

- FILL OUT FORM W-7
- HAVE CERTIFIED COPIES OF SUPPORTING DOCUMENTS MADE
  - *PASSPORT PREFERRED!*
- MAIL W-7 & CERTIFIED COPIES TO THE IRS'S "ITIN UNIT" IN BENSALEM, PA
- WAIT TO RECEIVE ITIN BEFORE FILING A RETURN

FOREIGN STEPCHILDREN

- YOU CANNOT CLAIM GERMAN STEPCHILDREN AS DEPENDENTS
- DEPENDENTS MUST BE A CITIZEN OR RESIDENT ALIEN OF THE U.S., CANADA, OR MEXICO
- YOU CAN CLAIM THEM IF YOU:
  - TAKE THEM BACK TO THE U.S.
  - ADOPT THEM

GERMAN "KINDERGELD"

- CHILD TAX CREDIT DOES ***NOT*** DISQUALIFY YOU FROM RECEIVING KINDERGELD
- KINDERGELD IS **TAXABLE INCOME** TO THE PARENTS
- MUST CONVERT EUROS to $
- REPORT ON FORM 1040, LINE 21, AS "OTHER INCOME."

FCC PROVIDERS

- SELF-EMPLOYED INDIVIDUALS IN GERMANY MAY NOT PAY INTO U.S. SOCIAL SECURITY SYSTEM
- FCC PROVIDERS NEED TO APPLY FOR *CERTIFICATE OF COVERAGE* UNDER GERMAN SYSTEM
- WHETHER THEY PAY INTO GERMAN SYSTEM IS UP TO THEM

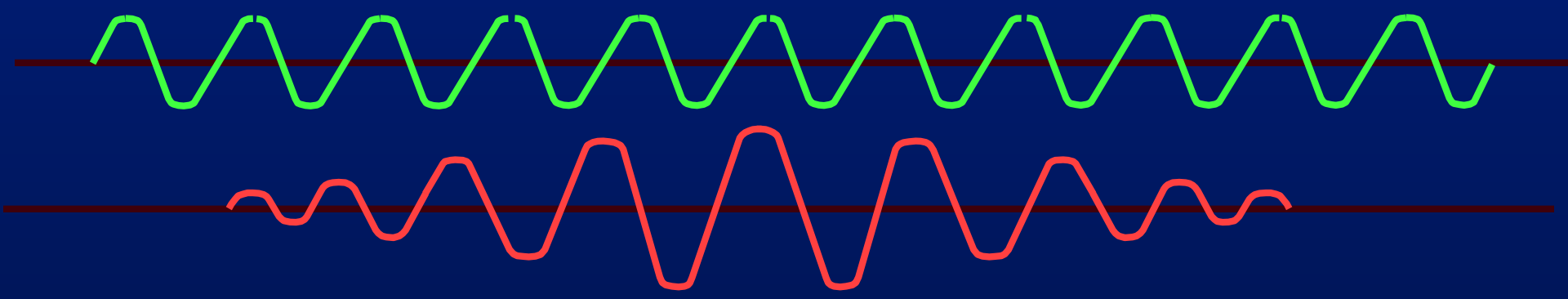
CHRONIC NONFILERS

- HUGE PROBLEM OVERSEAS
- RESULT OF:
  - PROCRASTINATION
  - "TAXOPHOBIA"
  - DEPLOYMENTS
- *FORFEIT REFUNDS AFTER 3 YEARS!*
- GO BACK 6 YEARS AND FILE
- JAG CAN HELP

TAX TIPS FOR MILITARY TAXPAYER

A COMBAT MULTIPLIER FOR MILITARY TAXPAYERS

www.irs.gov

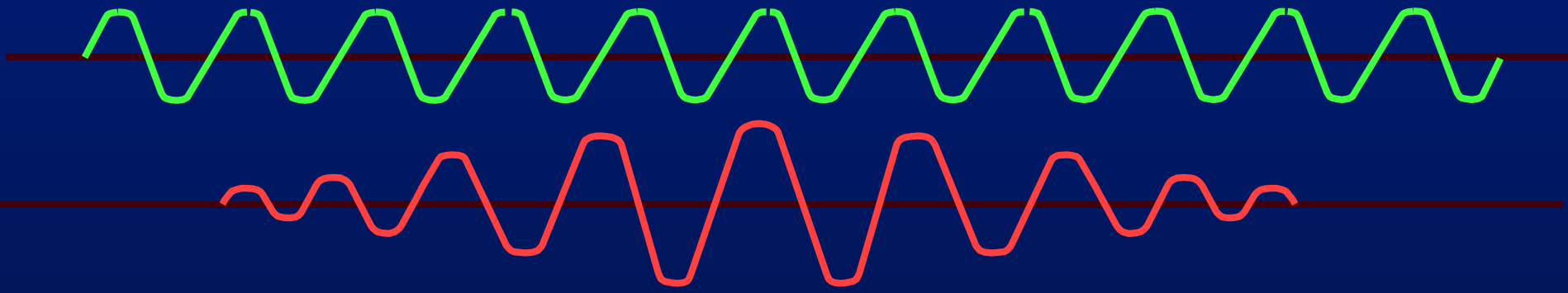


www.irs.gov

- ENABLES YOU TO DOWNLOAD
  - FORMS
  - INSTRUCTIONS
  - PUBLICATIONS
- CURRENT & PRIOR YEARS
- HAS LINKS TO STATE DEPT OF REVENUE WEB SITES

ANOTHER HELPFUL WEB SITE…

www.sisterstates.com



DECEMBER LEAVE & EARNINGS STATEMENT

- **NEVER USE DECEMBER LES INSTEAD OF PROPER W-2 FORM**
- **USING DECEMBER LES CAN CHEAT MILITARY TAXPAYERS OUT OF FULL EARNED INCOME CREDIT**
- ***DON'T BE MISLED BY COMMERCIAL TAX PREPARERS!***

REFUND ANTICIPATION LOANS (RAPID REFUNDS)

- CONSUMER REPORTS CALLS THEM *"A RIP OFF"*
- TAXPAYER PAYS THREE FEES:
  - PREPARATION FEE
  - E-FILING FEE
  - REFUND ANTICIPATION LOAN FEE
- ***ANNUAL EFFECTIVE RATE OF INTEREST CAN EXCEED 300%!***

SOCIAL SECURITY NUMBERS

- **ALL DEPENDENTS NEED SSNs**
- **TAXPAYERS NEED TO BRING SSN CARDS TO TAX CENTER**
  - **NAMES ON TAX RETURN MUST MATCH NAMES ON SSN CARD**
  - **ESPECIALLY IMPORTANT FOR HISPANIC TAXPAYERS**
- ***DID WIFE CHANGE NAME ON SSN CARD AFTER MARRIAGE?***

EXTENSIONS

- **AUTOMATIC EXTENSION OF DEADLINE TO FILE TO 15 JUNE**
- **JUST WRITE *"TAXPAYER OVERSEAS --AUTOMATIC TWO-MONTH EXTENSION"* ACROSS THE TOP OF THE RETURN TO CLAIM IT**
- ***WARNING: INTEREST BEGINS TO ACCRUE ON 16 APRIL!!!***
- **BOTTOM LINE: *NEED TO FIGURE OUT IF YOU OWE BEFORE 15 APRIL***

NEED EVEN MORE TIME?

- FILE FORM 4868 FOR EXTENSION UNTIL 15 OCTOBER
  - [USE OF FORM 2688 HAS BEEN DISCONTINUED]
- DEPLOYED/MOBILIZED SOLDIERS OFTEN QUALIFY FOR EVEN LONGER EXTENSIONS...

OVERWITHHOLDING

- RAMPANT IN THE MILITARY
- CHILD TAX CREDIT MADE IT WORSE
- USING THE IRS AS A SAVINGS ACCOUNT IS DUMB
  - OTHERS CAN WITHDRAW YOUR EXPECTED REFUND THRU “OFFSET” PROGRAM
- ***SOLUTION:*** ***FILL OUT NEW W-4 FORM PROPERLY AND TURN IT IN!***

RESPONDING TO IRS NOTICES

- **TAX PROBLEMS DO NOT IMPROVE WITH AGE**
- ***FAILURE TO ANSWER THE MAIL CAN BE VERY COSTLY!***
- **UNIT TAX ADVISORS CAN HELP**
  - **"TRANSLATE" IRS NOTICES, AND**
  - **SET UP AN APPOINTMENT WITH A LEGAL ASSISTANCE ATTORNEY, IF NECESSARY**

STATE TAX ISSUES

FILING STATE INCOME TAX RETURNS

- **ONE OF THE MOST COMPLICATED THINGS WE DO**
- **MANY AMERICANS OVERSEAS NEGLECT TO FILE**
- **SOME MUST FILE 2 OR 3 STATE RETURNS**
- ***CIVILIANS WATCH OUT!*** **NO WITHHOLDING CAN BE A TRAP**

STATE TAX TERMINOLOGY

- "HOME OF RECORD"
- "STATE OF LEGAL RESIDENCE"
  - DD FORM 2058
  - HARD TO CHANGE WHILE OVERSEAS
- SERVICEMEMBERS CIVIL RELIEF ACT
- RESIDENT, NONRESIDENT, OR PART-YEAR RESIDENT RETURN?

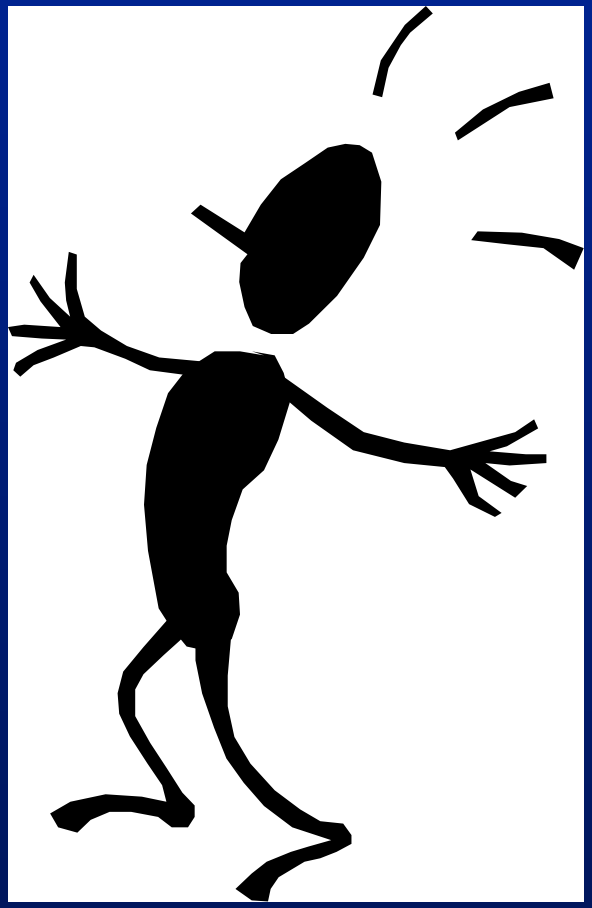
NO STATE INCOME TAX

- ALASKA
- FLORIDA
- NEVADA
- SOUTH DAKOTA
- TEXAS
- WASHINGTON
- WYOMING

- NEW HAMPSHIRE
- TENNESSEE
  - *Tax interest & dividends only…*

STATES WITH A "3-PART TEST"

- NEW YORK
- NEW JERSEY
- PENNSYLVANIA
- CONNECTICUT
- WEST VIRGINIA
- OREGON
- MISSOURI?



TYPICAL 3-PART TEST

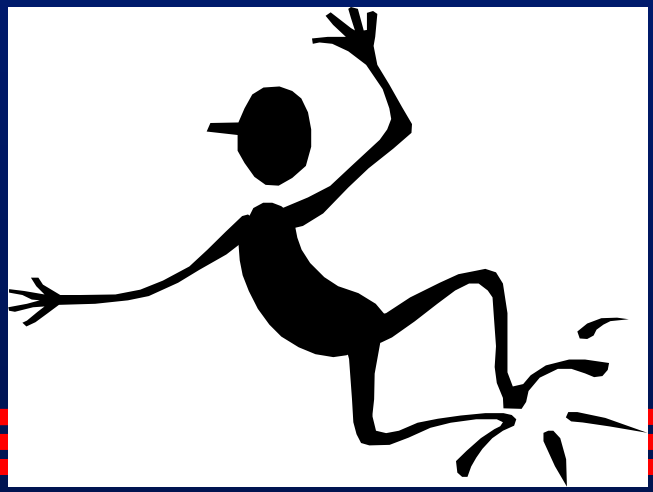
- TAXPAYER MAINTAINED NO PERMANENT HOME IN STATE
- TAXPAYER MAINTAINED A PERMANENT HOME OUTSIDE STATE
- TAXPAYER SPENT NO MORE THAN 30 DAYS IN STATE DURING TAX YEAR
- DD FORM 2058-1

ISSUES REGARDING THE 3-PART TEST

- WHAT IS MEANT BY PERMANENT HOME?
  - TRANSIENT VS. PERMANENT
- DID YOU HAVE TO MAINTAIN THE PERMANENT HOME OUTSIDE THE STATE ALL YEAR?
- MUST YOU FILE A STATE RETURN TO GET THE EXEMPTION?

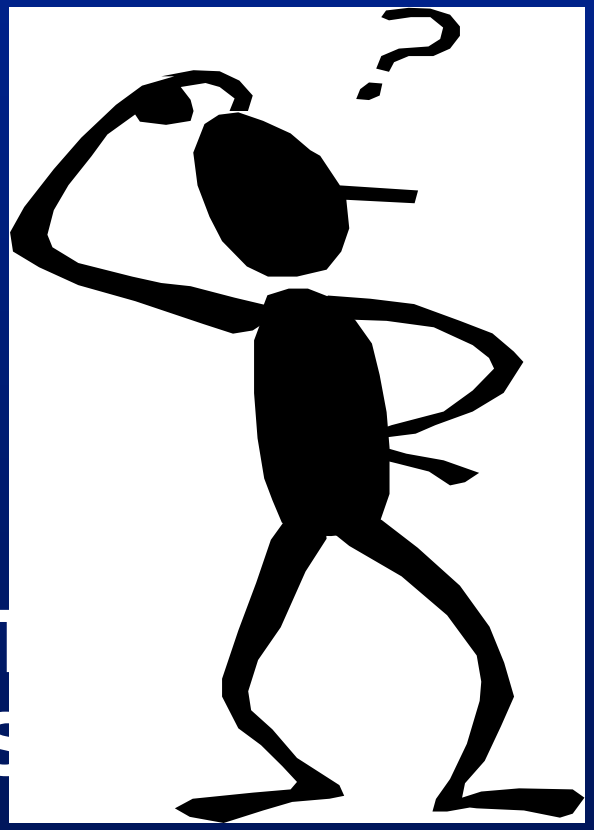
STATES WITH SPECIAL TAX BREAKS FOR THE MILITARY

- ARKANSAS
- CALIFORNIA
- COLORADO
- IDAHO
- ILLINOIS
- INDIANA
- MARYLAND
- MICHIGAN
- MINNESOTA
- MONTANA
- NORTH DAKOTA
- OKLAHOMA
- VERMONT
- VIRGINIA



STATES THAT REQUIRE SPECIAL CARE

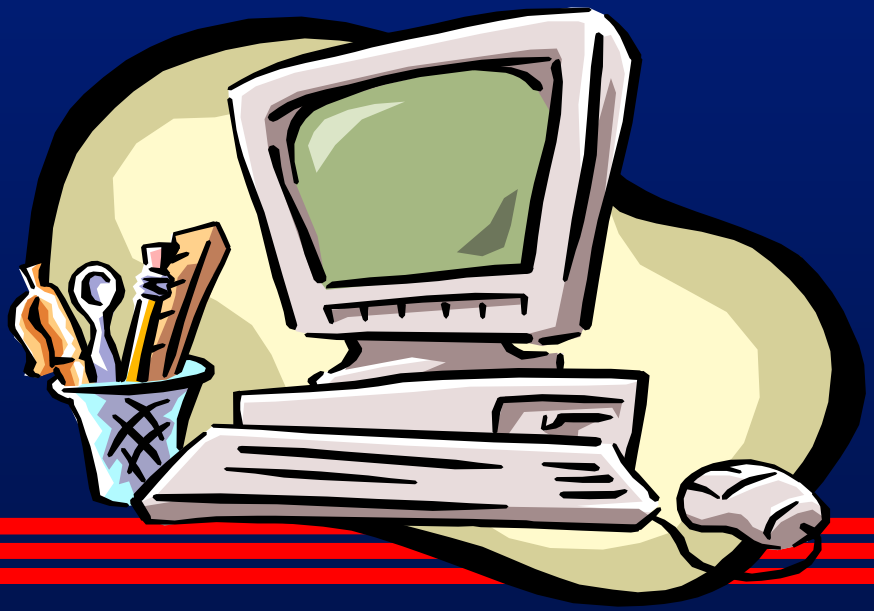
- PUERTO RICO
- ARIZONA
- MISSOURI
- OHIO
- WHAT ABOUT IN-STAT RATES



BOTTOM LINE ON STATE TAXES

- THERE IS NO SUBSTITUTE FOR READING THE INSTRUCTIONS CAREFULLY
- DON'T ASSUME ANYTHING
- LOOK FOR SPECIAL RULES THAT APPLY TO MILITARY TAXPAYERS
- ASK YOUR UNIT TAX ADVISOR

ELECTRONIC TAX FILING

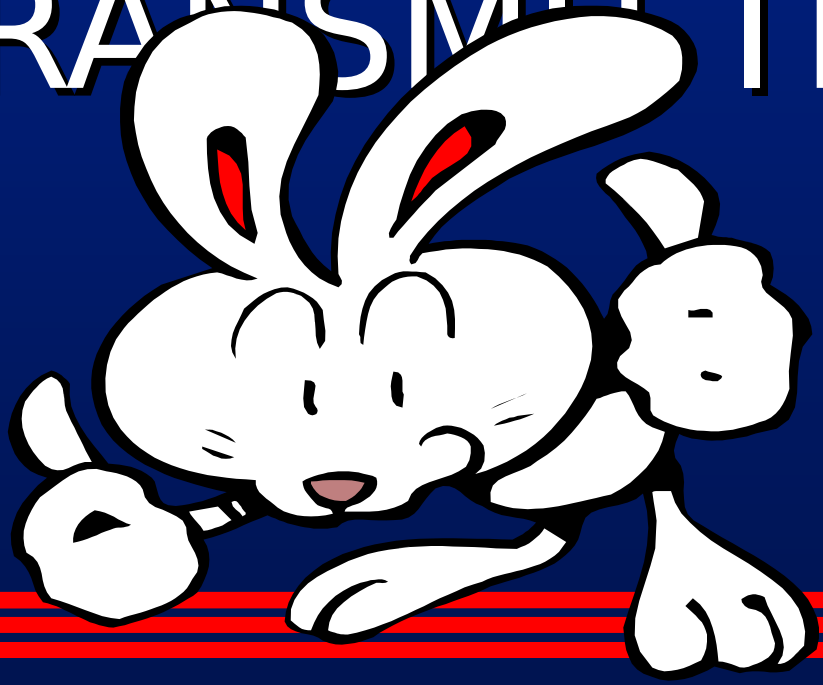


ADVANTAGES OF E-FILING

- ACCURACY
  - ERROR RATE, PAPER RETURNS: 21%
  - ERROR RATE, E-FILED RETURNS: <1%
- SPEED
  - ACKNOWLEDGMENTS W/IN 24 HRS
  - DIRECT DEPOSIT IN 10-14 DAYS
- SECURITY
- IT'S THE IRS-PREFERRED METHOD

BOTTOM LINE ON E-FILING

WHY PENCIL WHIP IT WHEN YOU CAN TRANSMIT IT?



WHAT TO BRING TO THE TAX CENTER

- ✓ ID CARD, W-2s, 1099 FORMS
- ✓ SSN CARDS FOR SPOUSE & KIDS
- ✓ COPY OF LAST YEAR'S TAX RETURNS
- ✓ YOUR SPOUSE, IF FILING JOINTLY, OR
- ✓ POWER OF ATTORNEY FROM SPOUSE
- ✓ BANK CARD OR BLANK CHECK WITH ROUTING AND ACCOUNT NUMBERS

YOUR CLOSEST TAX CENTER

KAISERSLAUTERN:

Ground Floor, Bldg 3210, Kleber Kaserne
(directly across from the Shoppette)

TAX CENTER HOURS

KAISERSLAUTERN:

MON-FRI,

0900-1800

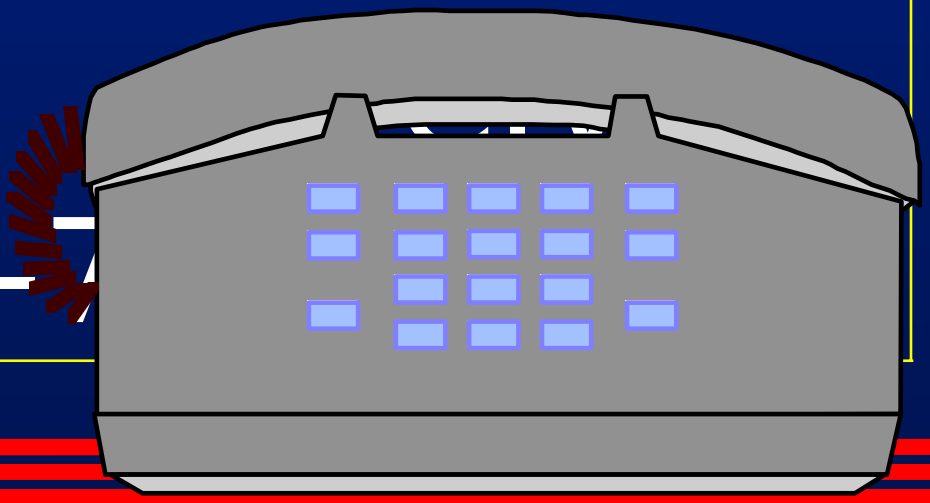
OPEN ALL YEAR!

TAX CENTER PHONE

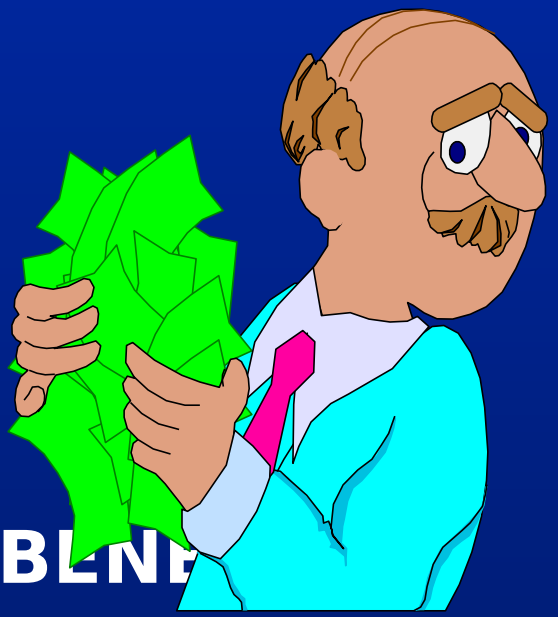
KAISERSLAUTERN:

DSN 483-7688

0631-411-7



CONCLUSION



- FREE TAX ASSISTANCE IS A VALUABLE BENE
- WE SAVE OUR TAXPAYERS MILLIONS
- WE HAVE A TEAM OF TAX EXPERTS READY TO HELP YOU
- LET US *"SHOW YOU THE MONEY!"*